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Report No. P-1345-KO

REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO
THE REPUBLIC OF KOREA
FOR A
TOURISM PROJECT

November 29, 1973

East Asia and Pacific Department

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Currency Unit = Won

U.S. \$1.00 = Won 400

Won 1,000 = U.S. \$2.50

Won 1,000,000 = U.S. \$2,500

Fiscal Year = January 1 - December 31

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN
TO THE REPUBLIC OF KOREA FOR A TOURISM PROJECT

1. I submit the following report and recommendation of a proposed loan to the Republic of Korea for the equivalent of US\$25.0 million to help finance a tourism project. The loan would have a term of 25 years, including seven years of grace, with interest at 7-1/4 percent per annum.

PART I - THE ECONOMY

2. The latest economic report ("Economic Situation and Prospects of the Republic of Korea" EAP-33a) was distributed under cover of R72-243, dated November 9, 1972. The Country Data Sheet is attached as Annex I. An Economic Mission was in the field during September-October 1973, and is now preparing its report.

3. Korea's economic record during the last decade has undoubtedly been one of the most impressive among the developing countries. The GNP growth, in constant 1970 prices, averaged 9.5 percent per annum during 1963-72 and average per capita income during 1972 at around \$300 was in real terms more than double the level of ten years ago. The unusually rapid increase in per capita income was, of course, mainly due to the large gains in output but it was facilitated by a sharp decline in the rate of population growth from nearly three percent in the early sixties to less than two percent at present. A key element in the rapid expansion of the Korean economy has been the growth of manufactured goods exports from less than \$10 million in 1962 to \$1,365 million in 1972. Manufactured exports which provide 85 percent of merchandise exports, now constitute about 25 percent of manufactured output. The structural change in the Korean economy is also highlighted by the sharp rise in the ratio of manufacturing output to GNP which now stands at 26 percent and exceeds the share of agriculture. Under the impetus of sharply rising manufactured goods exports, the ratio of exports to GNP rose steadily to 22 percent in 1972 as compared to less than 4 percent a decade earlier. At the same time real investment has shown phenomenal growth; the ratio of fixed capital investment formation to GNP which was only around 9 percent during 1960-62 rose to an average of about 23 percent during 1970-72.

4. The rapid growth which has transformed the Korean economy from the sluggish agricultural-rural pattern of the post-Korean war years to the dynamic semi-industrialized pattern of the present has not, however, been without its problems. Korea began to face serious resource management problems toward the end of the sixties because the heavy investment required to sustain rapid economic growth was well beyond her own saving capability. The savings-investment gap, which was quite large to begin with (foreign

- 2 -

savings averaged 7-8 percent of GNP during 1964-66), widened towards the end of the sixties to 11-12 percent of GNP. Even though the marginal savings rate during the last decade was close to 25 percent, the deficits on the goods and services account expanded rapidly and had to be financed by large external borrowings. The ratio of debt service payments to foreign exchange receipts increased rather sharply during the sixties to reach the peak of 19.4 percent in 1971 due, in part, to excessive reliance on suppliers' credits during 1965-70. During 1970-72, the Government took a number of measures to reduce the rate of increase of investment, to curb further expansion in foreign capital requirements and to improve generally the balance of payments. These measures included the gradual adjustment of the exchange rate from around 300 Won per US dollar in the beginning of 1970 to 400 Won per US dollar by the middle of 1972, restrictions on suppliers' credits and limitations on the expansion of domestic credit. They produced a definite slowdown in the economy; the GNP growth averaged only 8 percent per annum during 1970-72 compared with nearly 12 percent per annum in the preceding three years. Real investment stagnated during 1970-72 and the ratio of fixed investment dropped sharply from 27 percent of GNP in 1969 to 21 percent in 1972. The general economic slowdown did not, however, result in an abatement of inflationary pressures and the Government therefore took a series of further measures to check inflation and, at the same time, to moderate the disruptive financial impact of the economic slowdown on the business sector.

5. The impact of these stabilization measures on reducing inflation as well as on business attitudes about future price levels has been very considerable. External factors have also played a crucial role during the last twelve months in mitigating the financial strains of the past few years.

6. Even by Korean standards, 1973 promises to be an exceptional year and may rival 1969 in setting new records of growth rates in GNP, exports and investments. According to the Economic Mission's provisional estimates real GNP growth during 1973 may be as high as 15 percent. The major factors in the sharp upturn of economic activity since the second half of 1972 have been an unprecedented growth in exports, and more recently, a marked revival in fixed investment. Merchandise exports during 1973 may rise by 65-75 percent compared to last year. It seems that at least one third of the gain in the value of exports in 1973 is due to higher prices reflecting both worldwide inflation and further decline in the value of the US dollar. But the gain in export volume may be as much as 50 percent. Exports to Japan in the first half of 1973 were nearly 200 percent higher than in the corresponding period of 1972. Exports to Europe have also expanded very fast since 1971 and exports to the US have also expanded. Real fixed investment, which showed very little increase during the last three years, will probably increase by 30 percent this year. The national saving rate, which had dropped to about 15 percent in 1972, is also likely to recover to around 17-18 percent, the level

reached in 1969. Even though the steep rise in import prices of food-grains, raw materials and fuels and a sharp expansion in machinery imports, will result in an unparalleled import growth of 65 percent during 1973, the goods and services account deficit will be only in the order of 6 percent of GNP compared with 11 percent in 1970-71.

7. It is noteworthy that record economic expansion has been achieved with less inflation than in 1970-72. Wholesale prices, according to official statistics, were in September 1973 about 6 percent higher than a year ago. However, in view of the extensive price controls, official price indices understate the extent of price pressures. Furthermore, since August the price increases have accelerated and for the calendar year 1973 a rise in the wholesale price index of 8 percent is likely. But the upheaval in the world commodity markets in the first half of 1973 and the persistence -- even acceleration -- of price pressures in the U.S. and Japan, Korea's major trade partners, have resulted in considerable imported inflation in Korea. These developments could not have been foreseen when the target of limiting price increase to 3 percent was adopted last year as a part of the August 3 package.

8. The remarkable performance of the economy in 1973 has quite evidently increased the confidence both in business and Government with which the future is viewed. However, there is a degree of uncertainty about how the possible downturn in international economic activity and continued inflationary pressures will affect the course of the Korean economy during 1974.

9. Nevertheless, in light of the recent trends, the Government plans to pursue vigorously its long-term targets of \$1,000 per capita income and \$10 billion exports by the early 1980s. The long-term strategy envisaged is essentially an extension of the growth path Korea has so successfully followed in the past decade. The overall growth rate of GNP of about 10 percent, achieved during the sixties, is to be maintained over the next ten years. This is to be achieved, as in the past, through a more rapid expansion of exports than that of GNP. The ratio of exports to GNP is projected to rise to 30 percent by 1981 compared to less than 17 percent in 1972. The manufacturing sector which is expected to provide the bulk of the increment of exports is expected to contribute 40 percent of the increment of total output between 1972-1981 (compared to less than 25 percent during 1962-72) and will also absorb 40 percent of the total fixed investment (compared to about 20 percent in the past).

10. There are, however, two notable differences from the past pattern. The strategy aims at major shifts both in the structure of manufacturing output and exports. Major expansion of shipbuilding, steel, petrochemical and electronic industries is planned and the exports of these products (amounting to less than \$250 million in 1972 of which more than half was in electronics) are expected to rise to about \$5 billion by 1981. In addition, substantial expansion in exports of industrial machinery, motor cars as well as of the presently dominant exports, such as textiles, plywood and footwear, is also planned. The other major difference in the strategy compared to the past, is the aim to reduce sharply the dependence

on net inflows from abroad. This is in sharp contrast to recent trends; during 1968-72 foreign savings financed over 40 percent of total investment.

11. The Economic Mission's tentative view is that the general thrust of Korea's development strategy is correct. The overall export expansion which is planned does not appear unrealistic, given past performance, current competitiveness and Japanese business' interest in shifting some industries abroad. In general, the shift to heavy and chemical industries also appears to be justified though the priorities within the program need to be defined more sharply. The developments during the current year also suggest that the potential expansion of light industry exports may have been underestimated. The Economic Mission was in the field before the recent developments affecting oil supplies took place. The availability of oil and the prices at which Korea can obtain it during the next few years will obviously have crucial implications for the prospects of achieving the growth targets mentioned in paragraph 10 above; however, the Mission has not, as yet, been able to form a judgment on the likely effects of oil shortages, and higher oil prices, on the Korean economy over the next few years.

12. The external capital requirements of the long-term program (1973-81) appear to have been greatly underestimated by the Government. Even on the assumption that the marginal savings rate will improve sharply during the seventies compared with the sixties, Korea cannot hope to close the resource gap by 1981 while pursuing high rates of growth of GNP. The external resource requirements would be particularly heavy for the period 1974-1978. The gross borrowing requirements during this period might turn out to be in the neighborhood of \$1.5 billion annually compared with the earlier estimates of \$900 million. But even with higher requirements and higher external borrowing, the debt service ratio which is likely to come down to 12-13 percent during 1973 is not likely to exceed 15 percent in the remaining part of the seventies, provided exports rise as expected.

PART II - BANK GROUP OPERATIONS IN KOREA

13. As of October 31, 1973, Korea had received 12 Bank loans and 8 IDA credits, amounting in total to US\$417.5 million in loans and US\$106.9 million in credits (taking into account cancellations and the refinancing of one IDA credit in a subsequent Bank loan).

14. Of the US\$525.4 million, about one-half has been the transport sector - US\$119.7 million for railways, US\$54.5 million for highways and US\$80 million for ports. The Korean Development Finance Corporation (KDFC) has received US\$95 million in Bank loans for relending to private industry. US\$117.5 million has gone to agricultural projects - US\$93 million for irrigation projects, US\$7 million for livestock development, US\$10.5 million for the provision of medium - and long-term credit through the National Agricultural Cooperative Federation and US\$7 million for seeds production. The balance of US\$57.8 million was to the education sector.

15. IFC has made four investments in Korea and its commitments amount to US\$3.4 million in loans and shares. ^{1/} IFC made its first equity investment in KDFC, of US\$0.7 million or 14 percent of KDFC's paid-in capital, at the time the Bank made its first loan to KDFC. In 1971, IFC purchased US\$0.6 million of the shares of the Korean Investment and Finance Corporation - a new institution whose function is to assist in the development of the capital and money markets. The Executive Directors approved on July 24, 1973 the exercise of preemptive rights to purchase at par about US\$355,000 equivalent of KDFC's common stock. Prospects for further IFC investments in Korea are good.

16. Of total Bank and IDA lending, about US\$343 million remain undisbursed as at October 31, 1973. This is mainly due to the fact that withdrawals have not yet commenced under several large loans made within the past year.

17. Annex II contains a summary statement of Bank Loans, IDA credits, and IFC investments as at October 31, 1973 and notes on the execution of ongoing projects. As indicated in the notes, progress on project implementation is generally satisfactory, although difficulties have been encountered with some projects and most seriously with the Pyongtaek-Kumgang Irrigation Project (Loan 600-KO).

18. The Bank's program for FY1974 tentatively includes five projects. Of these, a loan to help finance the expansion of seed production was approved in October. A second highway project, has been appraised and should be presented to the Board in the next few weeks. The other two projects (an agricultural products processing project and a secondary cities development project) have just been appraised. This program is in accord with a major objective of the current Third Plan viz, the narrowing of the income gap between the urban sector and the rural sector through increased agricultural investments. The proposed agricultural products processing project will aim at increasing on-farm and processed production of agricultural commodities through the provision of credit to farmers, packers and processors. The proposed secondary cities project will assist in the development of the Kwangju area, which is a poor, agricultural region in the southwest of the country. Bank assistance for the development of this area has so far focused on agriculture through the Yong San Gang river basin project (Loan 795/Credit 283-KO) and on transport development through completion of sections of the Chonju/Busan national highway linking Kwangju and Suncheon with the national primary highway system. The tourism project under consideration will assist in the implementation of the next stage of the Government's regional strategy. The primary purpose of the proposed project is to develop the tourism potential of the Kyongju area. However, it will also expand the water supply system and provide a sewerage and solid waste disposal system for the existing City of Kyongju. The construction of a dam to provide a source of water for

^{1/} A fifth investment in the Atlas Paper Co. amounting to US\$5 million was cancelled at the request of the company.

the proposed tourist resort will also help to control flooding in the area and will enable irrigation of an additional 1,200 ha. of land.

19. The emphasis on agricultural and rural development will be reflected in the operations program for the succeeding years FY1975 and FY1976. The report of the agriculture sector mission, which has recently been discussed with the Government, should provide the basis for developing additional high priority agricultural projects. A second livestock project, an agriculture credit project, a forestry project and the second stage of the Yong San Gang Irrigation Project have already been identified.

20. The other major emphasis in Korea's Third Plan, which is supported by the Bank's economic analysis, is the transition from light to heavy industrial development. The Bank's lending to industry in Korea has been through the KDFC; the possibility of Bank lending to another financial intermediary, the Korean Development Bank (KDB), is under active consideration.

21. The development of the industrial and agricultural sectors will require concurrent infrastructure development. Although the transport sector will be given less emphasis than in the past, the investments required are large and thus there is considerable support for this sector in the program.

22. Korea's long-term development strategy, especially as regards its plans for increased investments in agriculture and infrastructure, will require greater efforts on the part of the Government to prepare more projects suitable for external official finance. The success of the strategy will also be heavily dependent on the willingness of official lenders to finance larger amounts of local currency expenditures, at least until an adequate number of projects is developed to facilitate the flow of foreign exchange required for the new investment program.

23. The share of the Bank Group in Korea's total external debt (disbursed) outstanding at the end of 1971 was 3.8 percent, and the share in the debt service was 0.6 percent in the same period. If the Bank Group's average annual rate of the lending of the past three years continues (US\$115-120 million), its share in the total amount of external debt outstanding will increase to about 7 percent by 1976.

24. The Consultative Group continues to be active. Bilateral assistance to Korea increased from \$71 million in 1966 to \$281 million in 1971, with the U.S. and Japan being the principal donors providing some 97 percent of the total bilateral assistance of \$898 million during the 1966-71 period.

PART III - THE TOURISM SECTOR

Growth of Tourism

25. International tourism in Korea is at an early stage of development. Despite the country's scenic beauty and its many sites of historical and archeological importance, Korea attracted very little real vacation traffic before the late sixties. Until recently, Korea was not on established travel routes normally taken by European and American vacationists visiting the Far East or on Pacific tours; there were only a few hotels of international standard and the country's historical and cultural attractions had not been developed. Visitors averaged about 42,000 annually in the mid-sixties; about half of these were Americans, mainly on business or official duty. Of the remainder, the large majority were expatriate Koreans visiting their families. There was little genuine vacation traffic.

26. The tourism sector has, however, expanded vigorously in recent years. The number of foreigners taking vacations in the country rose from less than 19,000 in 1966 to over 210,000 in 1972, growing at an annual average rate of 50 percent during the period. The last two years have seen an accentuation of this trend - more than twice as many foreigners visited Korea on vacation last year than in 1971. The most important factor contributing to the growth of the sector has been the large increase in the number of Japanese tourists from about 41,000 in 1970 to 80,000 in 1971 and further of the increasing amount of vacation travel undertaken by the Japanese since the mid-1960's as a consequence of their country's economic prosperity, the progressive liberalization of its overseas travel restrictions and the improvement in communications between Japan and Korea. Total Japanese visits abroad rose from 214,000 in 1966 to 1.4 million in 1972; a growing share of this total has gone to Korea (from 8 percent in 1966 to 16 percent in 1972).

27. Travel receipts on the invisibles account increased from US\$7.7 million in 1965 to US\$31.2 million in 1971 or 6.5 percent of total receipts on invisibles. Tourist receipts are expected to become the dominant source of revenue from invisibles in the next decade, as travel income is expected to average about US\$200-250 million a year or 20 percent of total invisible receipts in the 1972-76 period and about US\$350 million or 30 percent in the next five-year period. By 1981, travel income may be as much as 40 percent of all invisible receipts, second in importance only to transportation and insurance.

28. The number of Japanese vacationing abroad is expected to rise even more rapidly in the remainder of the seventies. Recent estimates indicate that there may be as many as 10 million Japanese tourists holidaying overseas every year by 1980. The bulk of this travel is expected to be confined to the Far East, Southeast Asia, Micronesia and the South Pacific. Korea is likely to be a popular choice among these destinations because: (a) of its proximity to Japan and the low transportation costs involved - the return air fare from Tokyo to Seoul or Busan is lower than that from Tokyo to a city

in any other foreign country, (b) the low price levels obtaining in Korea relative to Hong Kong, Taiwan, the Philippines and other neighboring countries; and (c) the unique historical monuments in Korea, which predate those of Kyoto and Nara and are of interest to the Japanese. Continuing growth is also expected in the number of visitors from the US and other countries.

Role of the Private Sector

29. The Korean private sector has responded to the opportunities afforded by the recent and anticipated growth of tourist travel. Capacity in hotels designed to standards required by foreign visitors has been increased by over 40 percent during the past two years and hotel capacity is expected to expand by a further 5,000 rooms by the end of 1975. The attractive financial returns expected are enhanced by five-year income tax holidays, exemption of customs duties on imported materials and provision of basic infrastructure by the Government to encourage investment in hotels. Services provided by both Korea Airline (KAL) and foreign airlines have been expanded considerably to accommodate the growing number of visitors to Korea of whom 90 percent arrive by air. Also, Seoul's Kimpo International Airport is being expanded and Busan's airport is being relocated, which will permit its enlargement to cope with the increasing air traffic.

Government Policy Towards Tourism

30. The Government is placing considerable emphasis on the development of the tourism sector. It realizes the importance of tourism as a foreign exchange earner and it recognizes that many areas of tourism potential are located in the poorer regions of the country and that their development could contribute substantially towards the alleviation of the regional income disparities, which is one of the major aims of its policy. A special department was established in the President's Secretariat to coordinate the efforts of public agencies and to formulate long-term policy for the growth of the tourism sector. This department is supervising the preparation, with assistance from USAID, of a comprehensive national tourism study, which aims at developing a framework for the long-term development of this sector. The Government's preliminary review of opportunities for tourism development led to the conclusion, with which the Bank concurs, that prospects for developing a tourist resort at Kyongju were so promising that the proposed project should be implemented without awaiting the completion of the long-range study. Also, the Government has decided to proceed with the preparation of a Master Plan for tourism development on Cheju Island, which has been identified by both the Government and the Bank as possessing significant potential for attracting tourists. Consequently, the conduct of a feasibility study to determine the justification for the construction of a resort on Cheju Island similar to the one at Bomun Lake will be undertaken as part of the proposed project. Also the Government, with assistance from UNDP and ILO, is sponsoring a training program to increase the number of qualified personnel for employment in the tourism industry.

31. In early 1972, the Government established the Kyongju Development Office (KDO) to finalize the Master Plan for the development of the Kyongju region's tourism potential. The Office is administratively part of the

Ministry of Construction but reports directly to the special department in the President's Secretariat. The latter has effectively coordinated the work so far performed by KDO and other Government agencies on the preparation of the proposed project. The Government believes that it would be advisable to establish a new entity to administer the new tourist resort at Kyongju. This will be called the Kyongju Tourism Agency (KTA).

PART IV - THE PROJECT

32. In 1971, the Government asked the Bank to assist in assessing the potential for developing the tourism industry in Korea. A sector survey mission visited the country and, on the basis of its findings, agreed with the Korean authorities that the Kyongju area located in the southeast of the country offered excellent prospects for attracting greater numbers of foreign visitors. The Bank was actively associated in the evaluation and subsequent refinement of a Master Plan for the urban and touristic development of the area. It was on the basis of this Plan that the proposed project was formulated by the Government, its consultants and a series of Bank missions over the last two years. An appraisal mission visited Korea in April 1973. Its report (No. 251a-KO) is being circulated separately. Negotiations were held from November 5-9, 1973 with a Government team led by Mr. Yoon Sae Yang, Senior Secretary to the President.

33. The proposed project will be the first to be implemented in Korea for the planned development of an international tourism resort. The selection of the site was based largely on the fact that Kyongju, as the country's ancient capital and pre-eminent cultural and historic center, is expected to be of considerable interest to foreign visitors. Further, the area is one of great natural beauty, has a temperate climate and is easily accessible by road from Seoul and Busan - the two major entry points into Korea for foreign visitors. Kyongju has some unique archeological monuments - e.g. an observatory built in 634 A.D., which is the oldest of its kind in Asia, a 25-foot high golden Buddha dating back to the eighth century and many other buildings and shrines of the Silla Dynasty period (58 B.C. to 935 A.D.). Many of these cultural relics had fallen into decay but the Government has made an impressive start on restoration work in the last few years.

34. Kyongju has been visited by tourists both foreign and domestic in increasing numbers over the last few years but especially since restoration work on the ancient archeological sites began to show results in 1971. Last year, about 1.2 million Koreans and over 76,000 foreigners visited the city; of the latter group, only about a half stayed the night reflecting the severe shortage of hotel accommodation and other tourist facilities.

Detailed Features

35. The proposed project aims to meet these deficiencies and to provide the facilities required for the increasing number of visitors expected in the future. A site at Bomun Lake, some 6 kms., from Kyongju City, has been selected for construction of a resort. Most of the land to be developed, which

measures just over 1,000 ha., has been acquired by the Government. The Government's plan for the development of the area envisages the construction, over a twenty-year period, of hotels with 6,000 rooms, condominiums, apartment buildings, youth hostels and camping sites. The first phase of the development of the Bomun Lake resort, of which the proposed project is a part, consists of the building of hotels with a 3,000-room capacity and the provision of utilities, services and recreational facilities for the complex. The first phase is to be completed by 1982; its principal components are the construction of: a ring road around an existing artificial lake; a street network inside the residential area; hotel sites parallel to the shore; sites for traditional restaurants; an amenity core, which will include shops, theaters, and community facilities such as a fire station and health clinic; and recreational facilities such as a sports ground, a marina and a golf course. The Government will finance the infrastructure for the resort as well as certain buildings and services. The bulk of the land area will be subdivided into individual lots for the construction of hotels, recreational activities and commercial development by private investors. The activities of private investors will be guided and regulated by the Kyongju Tourism Agency (KTA), which is expected to be established within a year.

36. The proposed development of basic infrastructure for the Bomun Lake resort area affords a good opportunity to provide for a number of improvements which will raise the standard of living in five adjacent villages at relatively small incremental costs. These improvements would consist of rural water supply, environmental sanitation, electrification and street lighting, street improvements, telephone connections and small elementary school which would serve all five villages. The villages involved are Buk Gun, Son Gok, Chong Dan, Chun Gun and a traditional Silla village which the Government intends to restore and open for tourists who wish to see folk arts and sample traditional Korean food.

37. A Loan and Project Summary is attached as Annex III of this report. A map showing the main features of the development of the Bomun complex and its vicinity is also attached. The main components of the proposed project are summarized below:

- a) A Multi-Purpose Dam and Irrigation System will be built at Duck-Dong, upstream from the Bomun Lake, to create a reservoir to stabilize the water level in the lake and provide sufficient water for the new resort as well as the increasing needs of Kyongju City. Further, the doubling of the land area irrigated from Bomun Lake (presently around 1,200 ha.) should be possible upon completion of the reservoir.
- b) The Water Supply System. At present the source of supply for the water works at Kyongju City is the Hyung San River. No reliable flow records are available, but the river sometimes goes dry in the summer, causing shortages. It is therefore, inadvisable to plan, in the long run, on supplying both the City and the new resort area from this source alone. However, groundwater exploration is underway

in the area and may provide an additional source to stabilize the water supply in the dry season for the resort. A new treatment plant is under construction at Kyongju and could be used, at least for a few years, to provide water for the City and the Bomun Lake resort. In the long run, when demand outstrips the supply of water from these sources, it is intended that a new plant be installed at Bomun to treat water taken from the Duck-Dong Lake. If the groundwater tests indicate that there would be sufficient water from this source to stabilize the supply, the installation of the Bomun plant would be deferred until the demand for water justifies it.

- c) The Sewerage System for the Bomun Lake complex and Kyongju will be interlinked and a common treatment plant for both localities is envisaged. At present, Kyongju City has no sewerage system and the river has become polluted near the existing water intake. Solid waste from both the Bomun resort and Kyongju will be collected, segregated and disposed of in a sanitary fill at Kyongju. Eight new collection trucks are to be procured from the proceeds of the proposed loan.
- d) Electricity, Telephone, Telegraph and Telex Facilities for the Bomun Lake area will be installed. Five villages located in the vicinity of the resort area will also be provided with electricity.
- e) The Construction and/or Realignment of Roads totaling about 57 kms. in length to provide access to various historic and scenic sites as well as to the Bomun Lake area, and forming network within the complex itself, will be undertaken. The project roads are marked on the attached map.
- f) Tourism Infrastructure consisting of storm water drainage networks, environmental sanitation of the Bomun Lake Basin, earthworks along the Shin Pyong River, community facilities, an 18-hole golf course and clubhouse, landscaping of the resort area and surroundings and lighting for resort area roads and streets will be constructed.
- g) A School for training hotel personnel designed to accommodate 250-300 students will be established. It is expected that some 7,000 trained employees would be required for the hotels and other resort facilities when they are fully operational in 1982.
- h) A Feasibility Study for the development of tourism on Cheju Island will be undertaken. The island is situated in the East China Sea, roughly 400 kms. southwest of Busan. Its

mild climate during the winter and its attractive beaches offer potential for the development of international tourism. The possibility of constructing a resort similar to the one proposed for Bomun Lake is being considered by the Government.

Organizational Arrangements

38. The responsibilities for implementing the project will rest with six Government agencies. The Agricultural Development Corporation (ADC) will build the Duck-Dong Dam and the related irrigation works. The Kyongju City Government (KCG) will be responsible for the construction of the water supply, sewerage, and solid waste disposal systems of both the City and the Bomun Lake resort. The Korean Electricity Company (KECO) will construct and operate the electricity facilities of the project. The Ministry of Communications (MC) will install and operate the telecommunications facilities (which will not be financed by the proceeds of the Bank Loan). The Bureau of Tourism in the Ministry of Transportation will operate the hotel training school. The Kyongju Development Office (KDO) will be responsible for the implementation of all the remaining infrastructure work; a project unit will be set up in KDO. ADC has gained valuable experience during the implementation of two Bank-financed irrigation projects (Pyongtaek-Kumgang and Yong San Gang). KECO and MC are both regarded as efficient in their fields and should be able to discharge the responsibility entrusted to them under the proposed project with no difficulty. KCG, the Bureau of Tourism and KDO have all played important roles in the evolution of the proposed project and have the capacity to discharge the project responsibilities to be assigned to them. The special department in the President's Secretariat mentioned in paragraphs 30 and 31 above will co-ordinate the activities of various agencies concerned with the project's implementation.

39. Upon completion of the construction work, KCG will operate and maintain the dam, the water, sewerage and waste disposal systems and all project roads. A new entity, the Kyongju Tourism Agency (KTA) will administer the new Bomun Lake resort. KTA is envisioned as a profit-oriented Government-sponsored organization. It would maintain the public areas in the resort; it will also arrange for the sale and lease of sites and facilities to private investors. It is expected that a number of the hotel investments at Bomun would be made by joint ventures of Korean and Japanese investors. Such joint ventures have already been responsible for developing several of the largest new hotels recently completed or now under construction in Seoul. Considerable interest has been shown by both Japanese and Korean investors in the Kyongju-Bomun area. The prospects for hotel investment are considered favorable in view of the good market possibilities of the area and the relatively high profitability of hotel operations in Korea. Nevertheless, the Government recognizes that, from the point of view of potential investors, the risks of being involved in a new resort are great. Therefore, it has agreed that it would take all necessary steps to ensure that a sufficient number of hotel rooms to make the project economically viable would be constructed; this is estimated to be 1,600 by 1982. Ultimately, KTA will consist of four departments with responsibilities in the fields of property management, planning and engineering, accounting and finance, and technical services. A statement outlining

KTA's functions and responsibilities is under preparation. The Government intends that KTA will be operational by the beginning of 1975. Its key staff will be drawn from the project unit to be initially set up in KDO.

Cost and Financing

40. A breakdown of the cost estimates for the proposed project is given in Annex III. The estimated total project cost is US\$50.0 million equivalent with the foreign exchange component of US\$21.0 million (42 percent of total cost) equivalent. The proposed Bank loan of US\$25 million equivalent would cover 50 percent of the total project cost. ADC, KCG and KECO will receive portions of the proposed Bank loan as tabulated in the Financing Plan included in Annex III. Subsidiary loan agreements acceptable to the Bank specifying the terms and conditions appropriate for the particular project components to be financed, are to be concluded between each of these agencies and the Government as a condition of effectiveness of the proposed loan. These terms and conditions were discussed during negotiations and the preliminary understandings reached are reflected in Annex III. KTA will repay to the Government, over a period of 25 years with 5 years grace at 7.25 percent interest per annum, that part of the proceeds of the Bank loan expended on the assets transferred to KTA. The proceeds of the Bank loan will be used to meet the entire foreign exchange expenditure and some US\$4 million of local currency expenditures. These estimates are based on the expectation that about US\$9.1 million of major civil works contracts (roughly 30 percent of the estimated value of all civil works contracts) would be won by foreign bidders, and that most equipment suppliers would also be foreign. In the event that local manufacturers won all equipment supply contracts, the local expenditure financing from the proposed loan would increase by about US\$6.5 million equivalent to US\$10.5 million equivalent.

41. Some 12 percent of the anticipated expenditure on civil works and equipment (amounting to US\$1.9 million) have been earmarked to meet the cost of consultancy services required for the final design and the supervision during construction of the project. These relatively high consultancy costs are considered justified in view of the specialized services required for certain components of the project (e.g. the golf course, landscaping, water supply and sewerage, dam and irrigation works). Some of the work on the preparation of the final designs has already been accomplished by the Government with the assistance of consultants acceptable to the Bank. It is recommended that the costs of these services from May 1, 1973 be financed retroactively from the proceeds of the proposed loan. The amount involved will be of the order of US\$750,000 equivalent (approximately 1.5 percent of total project cost).

Procurement

42. Contracts for major civil works and equipment will be let in accordance with the Bank's Guidelines for Procurement. Project items will be grouped together in order to encourage international competitive bidding. The Korean construction industry has the capacity to implement the works to be undertaken; therefore, it is expected that foreign contractors will submit bids only for the larger contracts. Smaller contracts like the

civil works and the improvement of the existing villages will probably not be large enough to attract foreign bids. These contracts (expected to cost below \$50,000 individually), will, therefore, be locally tendered; the total value of such contracts is estimated at about US\$2.8 million equivalent. The responsibility for tendering, bid evaluation and contract awards for all works under the project will rest with the Office of Supply of the Republic of Korea (OSROK) which is the central procurement office for all Government agencies. OSROK has been responsible for procurement work under previous Bank loans and is familiar with our procedures. In bid evaluation, Korean manufacturers of equipment and furniture will be allowed a preferential margin of 15 percent of the c.i.f. cost of competing imports or the relevant prevailing level of customs duties, whichever is lower.

Disbursements

43. Disbursements from the Loan Account would cover: (i) 55 percent of total cost of civil works and associated services, excluding land acquisition; (ii) 100 percent of the c.i.f. cost of imported equipment, furniture and materials or of the ex-factory cost of such locally manufactured equipment, furniture and materials; and (iii) 100 percent of foreign expenditures on technical services for the Cheju Island feasibility study. A schedule of disbursements is included in Annex III.

Financial Objectives and Forecasts

44. The Government's basic financial objective, in respect of the utilities to be provided under the project, is the recovery of the investments in the various project components from charges to the beneficiaries and the achievement of a reasonable rate of return. The prospects for the fulfillment of these targets insofar as the resort area is concerned, will be conditioned by the ability of KTA to charge the hotels with the full capital and operating cost of infrastructure without endangering their profitability. Insofar as the agriculture component is concerned, the Government will take into account the ability of the farmers to pay for the water. This is reflected in the level of water charges which are expected to provide for the recovery of 40 percent of the original investment at an interest rate of 3.5 percent per annum over a period of about 40 years. These terms are consistent with those of other irrigation projects in Korea, some of which have received Bank Group financing. For the water supply, sewerage and electricity components, charges would be set to meet the conventional objective of providing the utility entities with reasonable rates of return on net fixed assets in operation and ensuring the continued financial viability of these entities through the maintenance of a satisfactory debt service coverage.

45. The financial forecasts for water supply, sewerage and waste disposal operations of KCG show that KCG's Water and Sewerage Division would be able to achieve satisfactory financial results with rates of

return ranging from initially 7 percent to about 11 percent in 1982. In making these forecasts, it has been assumed that the Division would repay to the Government its share of the proceeds of the Bank loan over 20 years with 5 year's grace at 7.25 percent interest. Because of the favorable debt/equity ratio (ranging from 43 percent to 29 percent of total capitalization) the debt service coverage would be 1.7 or better throughout the operational period. The main assumption made in the forecasts is the application of water and sewerage charges which would place the burden for the extension of services to the resort area on the hotels. The assumed water and sewerage charges for hotels would be 2.5 times higher than those for commercial users in the city.

46. During the development period (1977-1981) the assumed direct user charges would fall short of providing an adequate rate of return. The Government would therefore, on behalf of KTA, pay to KCG an estimated amount of Won 512 million (US\$1.29 million) over the period in lieu of additional direct user charges. These payments would be treated initially as deferred expenses by KTA and would eventually be included in the calculation of hotel charges. This would ensure full recovery of all capital and operating costs from the beneficiaries without Government subsidies and without excessive direct user charges during the initial period of hotel development. Financial covenants agreed upon during negotiations set adequate performance standards for the KCG Water and Sewerage Division to meet this objective and to allow the Division to earn the stipulated overall rate of return on the fixed assets in operation, suitably adjusted for changes in price levels, of 7 percent in the first four years and 8 percent thereafter. To safeguard the Division's financial position, it is proposed that it would not incur additional debt or undertake other expansion during the construction of the proposed project, without the Bank's approval if its net revenue should be less than 1.5 times the maximum future debt service requirements. Financial forecasts for the electricity supply component of the project show that by applying its existing electricity tariffs to the consumers in the resort area KECO would earn a satisfactory rate of return on its incremental investment, provided that the extra cost of providing underground distribution facilities in the resort area would be borne by KTA. Appropriate financial arrangements to achieve this purpose between KECO and KTA were agreed during negotiations.

Benefits and Justification

47. In estimating the gross benefits that are likely to accrue from the tourism-related components of the proposed project only the expenditures which visitors are expected to incur in the Kyongju-Bomun Lake area have been taken into account. Although some portion of the visitors expenditure on international and domestic transportation is properly attributable to the project, this has not been included in the rate of return calculation. The relevant costs include the capital and operating costs of the infrastructure to be provided under the proposed project in addition to the capital and operating cost of hotel accommodations and related facilities in the project area such as restaurants and entertainment facilities. On this basis and

assuming an estimated economic life of the project of 25 years, the economic rate of return on the investments in the tourism-related component would be 18.5 percent.

48. In addition to the Bomun Lake resort facilities, the project includes investment in water supply, sewerage and solid waste disposal system for the City of Kyongju and provides for some infrastructure investment in several villages near the resort area. These improvements would constitute an important benefit to the local population. To the extent that this benefit is reflected in the water and sewerage charges, it has been taken into account in the calculation of the rate of return on the investment in utilities. Other benefits, such as an improvement in the public health and an increase in property values, are difficult to quantify and have not been included.

49. The irrigation component of the project includes that portion of the dam properly attributable to it together with the investments in the irrigation system itself. The rate of return on this element of the project is estimated at 13.7 percent.

50. If the entire capital and operating costs of the tourism-related component, the utilities component, and the irrigation component are measured against the combined gross benefits of these components, the overall rate of return would be 16.5 percent.

51. The proposed project is expected to increase Korea's gross foreign exchange receipts by US\$8.4 million in 1976 when the first hotels are opened and by US\$71 million per annum by 1984 when the project is fully operational. The high proportion of foreign tourists expected to visit Kyongju and the low import content for operating the tourist facilities (presently about 10 percent of total operating cost of hotels) implies that the net foreign exchange earnings from the project will be high. Allowing for repatriation of profits earned by foreign investors, the proposed project will still result in a net gain, in foreign exchange, of roughly \$8 million in 1976 and about \$63 million in 1984.

52. The Bomun Lake resort has been planned on a "tourism estate" concept under which the activities of private investors will be regulated by an estate management agency, KTA. This approach is intended to ensure that the resort area and facilities are used to the best advantage and that its development proceeds on a planned and integrated basis. The project is expected to be fully functional in 1984; by that time, it is estimated that it will provide direct employment for about 5,400 workers in the hotels and 1,500 workers in other facilities. Indirect employment generated in construction, agriculture, handicrafts, transportation and other services, is difficult to compute accurately but may amount to 10,000-15,000 persons.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

53. The draft Loan Agreement between the Republic of Korea and the Bank, the draft Project Agreement between the Bank and the Kyongju City Government, the draft Project Agreement between the Bank and the Korean Electric Company, the draft Project Agreement between the Bank and the Agricultural Development Corporation, the report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement of the Bank and the text of a resolution approving the proposed loan are being distributed to the Executive Directors separately.

54. The draft Agreements incorporate the salient provisions described in earlier parts of this report; otherwise they follow the usual pattern of loans for tourism projects.

55. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

56. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

Attachments

COUNTRY DATA - KOREA (SOUTH)

| | | |
|------------------------|---------------------------------------|--|
| <u>AREA</u> | <u>POPULATION</u> | <u>DENSITY</u> |
| 98,477 km ² | 32.4 million (mid-1972) | 32 per km ² |
| | Rate of Growth: 1.8 (from 1970 to 72) | 725 per km ² of arable land |

POPULATION CHARACTERISTICS (1972)

| | |
|--|------|
| Crude Birth Rate (per 1,000) | 28.0 |
| Crude Death Rate (per 1,000) | 8.0 |
| Infant Mortality (per 1,000 live births) | .. |

HEALTH (1972)

| | |
|-----------------------------|-------|
| Population per physician | 1,870 |
| Population per hospital bed | 1,851 |

INCOME DISTRIBUTION (1971)

| | |
|--|------|
| % of national income, highest quintile | 20.0 |
| lowest quintile | 7.0 |

DISTRIBUTION OF LAND OWNERSHIP (1971)

| | |
|-----------------------------------|----|
| % owned by top 10% of owners | 33 |
| % owned by smallest 10% of owners | 4 |

ACCESS TO PIPED WATER (1972)

| | | |
|-------------------------|-----|------|
| % of population - urban | 40% | 60.0 |
| - rural | | 7.0 |

ACCESS TO ELECTRICITY (1972)

| | |
|-------------------------|-----|
| % of population - urban | 60% |
| - rural | 40% |

NUTRITION (year)

| | |
|-------------------------------------|--|
| Calorie intake as % of requirements | |
| Per capita protein intake | |

EDUCATION (1972)

| | |
|-----------------------------|------|
| Adult literacy rate % | 92 |
| Primary school enrollment % | 97.5 |

GNP PER CAPITA in 1971 ^{1/} : US \$ 290

GROSS NATIONAL PRODUCT IN 1972

| | US \$ Mln. | % |
|---------------------------|------------|-------|
| GNP at Market Prices | 9,650 | 100.0 |
| Gross Domestic Investment | 2,014 | 20.9 |
| Gross National Saving | 1,643 | 17.1 |
| Current Account Balance | - 371 | 3.8 |
| Exports of Goods, NFS | 2,206 | 22.9 |
| Imports of Goods, NFS | 2,607 | 27.0 |

ANNUAL RATE OF GROWTH (% constant 1970 market prices)

| | 1960-65 | 1965-70 | 1971 | 1972 |
|---------------------------|---------|---------|------|------|
| GNP at Market Prices | 6.3 | 10.6 | 9.2 | 7.1 |
| Gross Domestic Investment | 18.4 | 25.1 | 6.3 | 10.8 |
| Gross National Saving | 34.1 | 24.3 | 3.0 | 10.7 |
| Exports of Goods, NFS | 24.5 | 35.5 | 20.5 | 39.0 |
| Imports of Goods, NFS | 10.0 | 31.0 | 20.4 | 6.2 |

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1972

| | Value Added | | Labor Force ^{2/} | | V. A. Per Worker | |
|---------------|-------------|-------|---------------------------|-------|------------------|-------|
| | US \$ Mln. | % | Mln. | % | US \$ | % |
| Agriculture | 2,758 | 28.6 | 5.3 | 51.0 | 520 | 57 |
| Industry | 2,965 | 30.8 | 1.5 | 14.0 | 1,977 | 215 |
| Services | 3,917 | 40.6 | 3.7 | 35.0 | 1,059 | 115 |
| Unallocated | | | | | | |
| Total/Average | 9,640 | 100.0 | 10.5 | 100.0 | 918 | 100.0 |

GOVERNMENT FINANCE

| | General Government ^{3/} | | | Central Government | | |
|---------------------------|----------------------------------|----------|---------|--------------------|----------|---------|
| | (W Bln.) | % of GDP | | (W Bln.) | % of GDP | |
| | 1972 | 1972 | 1969-72 | 1972 | 1972 | 1969-72 |
| Current Receipts | 694.1 | 18.0 | 16.0 | 618.3 | 16.0 | 13.0 |
| Current Expenditure | 526.9 | 13.7 | 10.9 | 505.4 | 13.4 | 11.0 |
| Current Surplus | 167.2 | 4.3 | 5.1 | 112.9 | 3.0 | 2.0 |
| Capital Expenditures | 486.7 | 12.6 | 12.6 | 316.6 | 8.2 | 5.0 |
| External Assistance (net) | 28.4 | 0.7 | 0.3 | 16.0 | 0.4 | 0.0 |

^{1/} The Per Capita GNP estimate is at 1971 market prices. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

^{2/} Total labor force; unemployed are allocated to sector of their normal occupation. "Unallocated" consists mainly of unemployed workers seeking their first job.

^{3/} All levels of Government.

.. not available
.. not applicable

COUNTRY DATA - (KOREA (SOUTH))

MONEY, CREDIT and PRICES

| | 1965 | 1969 (Billion) | 1970 | 1971 outstanding end period) | 1972 | 1973 |
|--|------|-------------------|-------|---------------------------------|---------|---------------------|
| Money and Quasi Money | 97.1 | 670.7 | 890.8 | 1,037.6 | 1,439.9 | 1,672.1 |
| Bank Credit to Public Sector | 47.2 | 46.4 | 49.6 | 41.0 | 138.3 | 185.1 |
| Bank Credit to Private Sector | 75.0 | 640.6 | 861.1 | 1,124.4 | 1,382.9 | 156.1 |
| (Percentages or Index Numbers) | | | | | | |
| Money and Quasi Money as % of GDP | 12.2 | 32.6 | 34.6 | 34.0 | 37.3 | - |
| General Price Index (1963 = 100) ^{1/} | 56.0 | 86.2 | 100.0 | 113.5 | 126.8 | 129.6 ^{2/} |
| Annual percentage changes in: | | | | | | |
| General Price Index | 13.6 | 12.5 | 16.0 | 13.5 | 11.7 | - |
| Bank credit to Public Sector | 39.6 | 14.6 | 6.9 | 17.3 | 337.0 | - |
| Bank credit to Private Sector | 35.1 | 64.5 | 34.4 | 30.6 | 23.0 | - |

BALANCE OF PAYMENTS

| | 1970 (Millions US \$) | 1971 | 1972 | 1973 ^{3/} |
|-----------------------------|--------------------------|-------|-------|--------------------|
| Exports of Goods, NFS | 1,341 | 1,587 | 2,206 | 1,730 |
| Imports of Goods, NFS | 2,107 | 2,515 | 2,607 | 1,974 |
| Resource Gap (deficit = -) | -766 | -928 | -401 | -244 |
| Interest Payments (net) | -61 | -91 | -93 | .. |
| Workers' Remittances | - | - | - | - |
| Other Factor Payments (net) | 24 | 0.0 | -47 | -74 |
| Net Transfers | 180 | 171 | 170 | 105 |
| Balance on Current Account | -623 | -848 | -371 | -213 |
| Direct Foreign Investment | 38 | 56 | 47 | 110 |
| Net MLT Borrowing | (185) | (377) | (428) | (279) |
| Disbursements | 422 | 593 | 721 | 410 |
| Amortization | 237 | -216 | -293 | -131 |
| Subtotal | 223 | 433 | 475 | 389 |
| Capital Grants | 173 | 235 | 230 | 172 |
| Other Capital (net) | 122 | 135 | -16 | 66 |
| Other items n.e.i | -16 | 18 | 41 | -43 |
| Increase in Reserves (+) | -57 | +39 | -169 | -162 |
| Gross Reserves (end year) | 610 | 571 | 740 | 902 |
| Net Reserves (end year) | | | | |

MERCHANDISE EXPORTS (AVERAGE 1970-72)

| | US \$ Mln | % |
|-----------------------|-----------|-------|
| Textiles | 356 | 30 |
| Plywood | 123 | 11 |
| Wigs | 82 | 7 |
| Electric Products | 79 | 7 |
| Metal Products | 59 | 5 |
| All other commodities | 476 | 40 |
| Total | 1,175.0 | 100.0 |

EXTERNAL DEBT, DECEMBER 31, 1972

| | US \$ Mln |
|---|-----------|
| Public Debt, incl. guaranteed | 3,616 |
| Non-Guaranteed Private Debt | 244 |
| Total outstanding & Disbursed | 3,860 |
| DEBT SERVICE RATIO for 1972 ^{4/} | |
| | % |
| Public Debt, incl. guaranteed | 13.3 |
| Non-Guaranteed Private Debt | 1.0 |
| Total outstanding & Disbursed | 14.3 |

RATE OF EXCHANGE

| |
|----------------------|
| Through June 1972 |
| US \$ 1.00 = 370 Won |
| 1.00 = US \$.0027 |
| Since June 1972 |
| US \$ 1.00 = 400 Won |
| 1.00 = US \$.0025 |

IBRD/IDA LENDING, (September 30, 1973) (Million US \$):

| | IBRD | IDA |
|-------------------------------|-------|-------|
| Outstanding & Disbursed | 123.5 | 47.7 |
| Undisbursed | 283.0 | 59.1 |
| Outstanding incl. Undisbursed | 406.5 | 106.8 |

^{1/} Consumer's Price Index for all cities^{2/} May, 1973^{3/} For the first half of 1973

.. not available

^{4/} Ratio of Debt Service to Exports of Goods and Non-Factor Services, EPB and IERD data.

.. not applicable

THE STATUS OF BANK GROUP OPERATIONS IN THE REPUBLIC OF KOREA

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of October 31, 1973)

| Loan or Credit Number | Year | Borrower | Purpose | US \$ million Amount (less cancellations) | | |
|---|------|-------------------|---------------------|--|--------------|--------------|
| | | | | Bank | IDA | Undisbursed |
| Four loans and credits fully disbursed. | | | | 5.0 | 39.6 | - |
| 600 | 1969 | ADC | Irrigation | 45.0 | | 27.6 |
| 151 | 1969 | Republic of Korea | Education | | 14.8 | 11.0 |
| 622 | 1969 | KDFC | Dev. Fin. Co. | 20.0 | | 0.9(-1) |
| 669 | 1970 | Republic of Korea | Railway | 40.0 | | 3.1 |
| 234 | 1971 | Republic of Korea | Livestock | | 7.0 | 3.3 |
| 735 | 1971 | KDFC | Dev. Fin. Co. | 30.0 | | 10.2 |
| 769 | 1971 | Republic of Korea | Highway | 54.5 | | 19.8 |
| 283 | 1972 | Republic of Korea | Irrigation | | 15.0 | 14.5 |
| 795 | 1972 | ADC | Irrigation | 33.0 | | 32.6 |
| 335 | 1972 | Republic of Korea | Agricultural Credit | | 10.5 | 9.9 |
| 863 | 1972 | Republic of Korea | Railway | 40.0 | | 40.0 |
| 905 | 1973 | KDFC | Dev. Fin. Co. | 40.0 | | 40.0 |
| 906 | | | | | | |
| 394 | 1973 | Republic of Korea | Education II | 23.0 | 20.0 | 43.0 |
| 917 | 1973 | Republic of Korea | Ports | 80.0 | | 80.0 |
| 942* | 1973 | Republic of Korea | Seeds Projection | <u>7.0</u> | | <u>7.0</u> |
| Total | | | | 417.5 | 106.9 | 342.9 |
| of which has been repaid | | | | <u>4.0</u> | <u>0.4</u> | |
| Total now outstanding | | | | 413.5 | 106.5 | |
| Amount sold | | | | 2.0 | | |
| of which has been repaid | | | | <u>-</u> | <u>2.0</u> | <u>0.1</u> |
| Total now held by Bank and IDA | | | | <u>411.5</u> | <u>106.4</u> | |
| Total undisbursed | | | | <u>284.2</u> | <u>58.7</u> | <u>342.9</u> |

* Not yet effective.

B. STATEMENT OF IFC INVESTMENTS (as at October 31, 1973)

| <u>Year</u> | <u>Obligor</u> | <u>Type of Business</u> | <u>Amount in US\$ million</u> | | |
|-------------|------------------------------------|--|-------------------------------|---------------|--------------|
| | | | <u>Loan</u> | <u>Equity</u> | <u>Total</u> |
| 1968 | KDFC | Development financing | - | 0.7 | 0.7 |
| 1969 | Honan Silk Co. | Textiles | 1.4 | 0.3 | 1.7 |
| 1970 | Atlas Paper Co. | Pulp and Paper | 4.5 | 0.5 | 5.0 * |
| 1971 | Korea Investment and Finance Corp. | Money and Capital Markets | - | 0.6 | 0.6 |
| 1973 | KDFC | Development financing | - | 0.4 | 0.4 |
| | | Total gross commitments | 5.9 | 2.5 | 8.4 |
| | | less cancellations, terminations repayments and sales | 4.5 | 0.5 | 5.0 |
| | | Total commitments now held by IFC | 1.4 | 2.0 | 3.4 |
| | | Total undisbursed | 0.1 | - | 0.1 |

* Cancelled at the request of the Company

PROJECTS IN EXECUTION ^{1/}

1. Loan No. 600 Pyongtaek-Kumgang Irrigation Project;
 US\$45.0 million Loan of May 23, 1969
 Closing Date: June 30, 1975

This is the first major irrigation project constructed in Korea. It was expected at appraisal that it would irrigate about 35,000 ha. of land improve drainage and roads, consolidate all paddy fields, bench upland and reclaim tidal land. The start of construction was postponed by a major reorganization of the executing agency and delay in hiring consultants; the project is now one year behind schedule. Detailed designs for the farm distribution system and land development disclosed that certain areas included in the project are not suitable for gravity irrigation. The net irrigable area now appears to be around 28,000 ha. Project costs are expected to be higher than appraised, mainly due to higher unit prices. Re-examination of the economic analysis indicates a reduction in the rate of return from 14 percent to 11 percent using revised rice prices and around 7 percent if prices expected during appraisal are used. Disbursement is 58 percent behind even when a one-year postponement is applied to the appraisal report schedule. Construction, however, is now progressing satisfactorily, and all work is scheduled for completion by the end of 1975.

2. Credit No. 151 First Education Project; US\$14.8 million
 Credit of June 4, 1969
 Closing Date: December 31, 1974

This project comprises: (a) the expansion and equipment of 27 technical high schools, 5 post secondary technical schools and 4 university teacher training departments; and (b) 26 man-years of technical assistance, 20 man-years of overseas fellowships to support the development of agricultural and/or technical education and to assist educational planning.

Project implementation is about 18 months behind schedule because, in its initial stage, delays occurred in the establishment of the project unit, the selection and appointment of architects and the formulation of equipment procurement procedures. The project is now progressing satisfactorily, but it is expected that because of the initial delays, it will be completed about one year later than estimated at appraisal. This may require a postponement of the Closing Date by six months to June 30, 1975.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

3. Loan No. 669 Third Railway Project; US\$40.0 million Loan
 Credit No. 183 and \$15.0 million Credit of May 14, 1970
 Closing Date: December 31, 1975

The bulk of the Loan and Credit was earmarked for the purchase of specific equipment required, namely, freight cars, diesel locomotives, telecommunications and track maintenance equipment. Progress is generally satisfactory except for delays in the procurement of some microwave equipment which caused the Closing Date of the Loan to be postponed from August 31, 1973 to December 31, 1975.

4. Credit No. 234 Integrated Dairy Beef Development Project
 US\$7.0 million Credit of February 11, 1971
 Closing Date: March 31, 1977

The development of about 700 small and medium-size dairy farms by providing long-term loans and the construction and operation of two dairy products processing plants are the principal components of the project which also includes management and technical services related to these activities. The project is progressing satisfactorily. To date, nearly 200 Korean farmers have participated. Following international competitive bidding, 1,600 dairy heifers have been purchased and a contract for the supply of dairy processing equipment awarded; planning and construction of civil works for the two dairy processing plants are well underway; technical services are being strengthened; and applied research for livestock production is bringing significant results.

5. Loan No. 622 & Second and Third KDPC Projects; US\$20.0
 Loan No. 735 million and US\$30.0 million Loans of
 June 26, 1969 and May 17, 1971 respectively
 Closing Dates: December 31, 1973 and
 August 31, 1975 respectively

These projects are progressing satisfactorily. Both Loans are fully committed.

6. Loan No. 769 First Highways Project; US\$54.5 million
 Loan of June 29, 1971
 Closing Date: November 30, 1975

The project includes the construction of approximately 230 miles of primary national highways between Chonju and Busan; feasibility studies of about 870 miles; and detailed engineering of an additional 680 miles. A highway maintenance study is also being undertaken and a national highway maintenance organization established on a pilot basis in one of the provinces. Construction is on schedule and within cost estimates.

7. Loan No. 795 Yong San Gang Irrigation Project:
 Credit No. 283 US\$33.0 million Loan and US\$15.0 million
 Credit of February 2, 1972
 Closing Date: September 30, 1977

This is the second major irrigation project financed by the Bank in Korea. It aims at transforming an area with the highest drought frequency in Korea into one with year-round irrigation and crop diversification. Also there will be increased production of high-value crops. The Loan/Credit became effective on September 15, 1972. Detailed surveying and designing are proceeding satisfactorily and construction has begun on three of the four dams. Cost estimates have increased by about 19 percent mainly because of right-of-way costs, more dam foundation grouting than expected at appraisal, and major changes in designs. About 1,400 ha. of additional land have been added to the project through revision of original canal lines, thereby providing benefits which offset the increased costs. Insufficient funds were budgeted originally for 1973, but the Government after Bank urging has provided adequate Won financing for the year so that construction can proceed on schedule. The need for adequate funds in future years has been discussed with the Government.

8. Credit No. 335 Agricultural Credit Project; US\$10.5 million
 Credit of September 29, 1972
 Closing Date: September 1, 1976

This credit supports a three-year lending program for the development of orchards, agriculture, mushrooms and to encourage poultry and swine production. A supervision mission visited Korea in July 1973 and reported that the demand for agricultural credit was strong. The Project still retains the potential to improve farmers' income. However, due to the poor selection of Kum Cooperatives and the lack of training and technical services, the Project has so far not been implemented as planned. Further loans have been suspended, pending proper training of officials at both NACF and Kum Cooperative levels, together with a more efficient selection of cooperatives and an improvement in technical services. These measures have been agreed with the Government and will be implemented over the next few months. Loans will be resumed thereafter. The Project is then expected to achieve its stated objective of increasing production and farmers income. A supervision mission visited the project in November 1973, and is preparing its report.

9. Loan No. 863 Fourth Railway Project; US\$40.0 million
 Loan of November 22, 1972
 Closing Date: December 31, 1976

The main elements of the project are: electrification of lines in the Seoul suburban area; purchase of electric railcars and locomotives; the completion of electrification of 350 kms of line running from Seoul to the northeastern part of Korea; track and bridge renewal; provision of yard facilities; acquisition of passenger and freight cars; and improvement of facilities for the maintenance and repair of motive power and

rolling stock. The Loan was declared effective on February 26, 1973. A recent supervision mission reports that the authorities concerned need to take measures to speed up procurement which is falling behind schedule.

10. Loan No. 905 Fourth KDFC Project; US\$40.0 million
 Loan of June 13, 1973
 Closing Date: December 31, 1977

This Loan was declared effective on September 10, 1973.

11. Loan No. 906 Second Education Project; US\$23.0 million
 Credit No. 394 Loan and US\$20.0 million Credit of
 June 13, 1973
 Closing Date: December 31, 1977

The project provides equipment for 18 technical and 14 agricultural high schools; 10 higher schools/junior colleges for industrial, agricultural, fishery and nursing training; colleges of agriculture, engineering and natural sciences in nine universities and a merchant marine college; and 10 junior teacher colleges and 12 colleges of education. It also includes pre-investment studies on health and management education and staff development. This Loan was declared effective on September 10, 1973.

12. Loan No. 917 Ports Project; US\$80.0 million
 Loan of June 27, 1973
 Closing Date: June 30, 1979

The project includes container and bulk cargo facilities and equipment at Busan and coal piers and handling equipment at Mukho. Consultants will be hired for technical assistance to the proposed Korea Port Authority and to conduct a Phase II Port Development Study. This Loan was declared effective on September 18, 1973.

13. Loan No. 942 Seeds Project; US\$7.0 million
 Loan of November 15, 1973
 Closing Date: December 31, 1978

The project will help finance: (a) the installation of five field crop seed processing and storage facilities of about 2,000 tons each; (b) farm machinery for seed production; (c) a revolving fund for procuring seasonal seeds inventories; (d) seed testing laboratories and equipment; (e) crop research; (f) feasibility studies for irrigation and area development; and (g) technical assistance. The loan is not yet effective.

KOREA - TOURISM PROJECT
LOAN AND PROJECT SUMMARY

Borrower: The Republic of Korea

Amount: US\$25 million equivalent

Project Description: The project would consist of:

- (a) the construction of a dam at Duck-Dong and a small irrigation system in the Bulguk area (see map);
- (b) the improvement and expansion of the water supply and sewerage and solid waste disposal systems for the City of Kyongju and Bomun Lake resort area;
- (c) the installation of electrical supply and telecommunication facilities for the Bomun Lake resort area;
- (d) The construction and/or realignment of access roads to historical monuments, access roads to the Bomun Lake resort, and a secondary road and street network within the resort area; the roads to be constructed and improved measure 57 kms.;
- (e) provision of tourism infrastructure and common facilities at Bomun Lake;
- (f) the establishment of a hotel school for 250-300 students to receive training in languages and accounting;
- (g) improvements to villages in the vicinity of the Bomun Lake resort; and
- (h) the conduct of a feasibility study of a potential new tourist area on Cheju Island.

Estimated Cost:

| | <u>Local</u> | <u>Foreign</u> | <u>Total</u> |
|---|--------------|--------------------|--------------|
| | - - - - - | US\$'000 - - - - - | - - - - - |
| 1. Dam and Irrigation System | 4,020 | 2,804 | 6,824 |
| 2. Water, Sewerage and Waste Disposal Systems | 2,737 | 2,310 | 5,047 |
| 3. Electricity Supply | 1,370 | 1,564 | 2,934 |
| 4. Roads and Stormwater Drainage | 5,002 | 2,847 | 7,848 |
| 5. Tourism Facilities | 10,449 | 6,284 | 16,733 |
| 6. Telecommunications | 208 | 550 | 758 |
| 7. Feasibility Study | 150 | 250 | 400 |
| 8. Contingencies | | | |
| Physical Increase | 2,443 | 2,126 | 4,569 |
| Price Increase | <u>2,621</u> | <u>2,265</u> | <u>4,887</u> |
| <u>TOTAL PROJECT COST</u> | 29,000 | 21,000 | 50,000 |

Financing Plan:

| | <u>U. S. \$</u> (millions) | <u>Sources of Funds</u> | | |
|---|--|----------------------------|--|---------------------------------------|
| <u>Project Component</u> | <u>Estimated^{1/}</u> <u>Cost</u> | <u>Bank</u> <u>Loan</u> | <u>Government</u> <u>Contribution</u> | <u>Internally</u> <u>Generated</u> |
| Duck-Dong Dam and Irrigation System (ADC) | 8.3 | 3.8 | 4.5 | - |
| Water Supply, Sewerage Waste Disposal (KCG) | 6.4 | 3.3 | 2.2 | 0.9 |
| Electricity (KECO) | 3.7 | 2.4 | - | 1.3 |
| Roads and Stormwater Drainage (KDO) | 9.8 | 4.4 | 5.4 | - |
| Tourism Facilities ^{2/} (KDO/KTA) | 20.4 | 10.9 | 9.5 | - |
| Telecommunications (MC) | 1.0 | - | 1.0 | - |
| Feasibility Study | <u>0.4</u> | <u>0.2</u> | <u>0.2</u> | <u>-</u> |
| Total | 50.0 | 25.0 | 22.8 | 2.2 |

^{1/} Including contingencies.

^{2/} Including hotel training school.

Proposed Relending Terms

The Government will relend portions of the Bank loan to KCG, ADC and KECO on the following terms and conditions:

KCG - 20 years including 5 years of grace with interest at 7.25 percent per annum.

ADC - On the same terms and conditions as the Government receives the Bank loan.

KECO - On the same terms and conditions as the Government receives the Bank loan.

Estimated Disbursements:

| | <u>US\$ million</u> | |
|-------------------------|---------------------|-------------------|
| <u>Bank Fiscal Year</u> | <u>Annual</u> | <u>Cumulative</u> |
| 75 | 7.4 | 7.4 |
| 76 | 11.0 | 18.4 |
| 77 | 4.8 | 23.2 |
| 78 | 1.8 | 25.0 |

Procurement Arrangements:

All contracts estimated to cost US\$50,000 or more would be awarded on the basis of international competitive bidding in accordance with the Guidelines for Procurement Under World Bank Loans and Credits (April 1972). Contracts estimated to cost less than US\$50,000 would be tendered locally on the basis of procedures acceptable to the Bank. Domestic manufacturers would be allowed a margin of preference of 15 percent or the applicable customs duty, whichever is lower, over the c.i.f. price of competing imports for machinery and equipment.

Payments under Bank-approved consultants' contracts from May 1, 1973 would be eligible for retroactive financing.

Consultants:

Consultants would be engaged (i) to assist in project implementation and advise and train staff in hotel management and (ii) to carry out a feasibility study of the tourism potential of Cheju Island.

Rate of Return: 18.5 percent.

Appraisal Report: 251a-K0, November 21, 1973, Tourism Projects Department

KOREA KYONGJU TOURISM PROJECT PROJECT COMPONENTS

- 4 LANE EXPRESSWAY (TOLL)
- NATIONAL HIGHWAYS
- PROVINCIAL HIGHWAYS
- RAILWAYS
- PROJECT ROADS
- MONUMENTS
- ROYAL TOMBS
- TOURIST HOTELS
- KYONGJU DEVELOPMENT PLAN BOUNDARY
- READJUSTMENT OF ADMINISTRATIVE BOUNDARY
- CITY AND COUNTY BOUNDARIES
- BOMUN LAKE PROJECT AREA
- CONTOURS IN METERS
- RIVERS
- BUILT-UP AREAS
- IRRIGATION PROJECT AREA

0 1 2 3 4 5
KILOMETERS

